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White House/Congress Trade Cooperation: Mixed Success Likely

Despite projections of "bipartisan cooperation" from members of the administration and Congress since the November 4 congressional elections, definite signs of conflict over trade issues are already apparent. As early as the morning after the election, White House chief of staff Donald Regan threatened a presidential veto of any protectionist trade bill. Sen. Robert Byrd (D, W.Va.), who is now unchallenged in his bid for majority leader, issued a warning of his own November 5 when he said that if a stalemate develops, it will be because the president makes trade reform confrontational. Legislation, he pledged, will reach the White House with or without the president's cooperation. It seems probable that basic differences of philosophy between Congress and the White House about trade issues will only intensify the conflict. However, the promised bipartisanship may develop in another area -- U.S. competitiveness in world markets.

Since Mr. Nakasone's first visit to China two and a half years ago, relations have boomed in terms of the volume and value of trade. This second visit will undoubtedly give new life to efforts to solve bilateral issues, particularly direct investment problems. In light of Beijing's continued efforts to modernize its economy and its military forces, links to the United States and Japan will continue to play a central role. Tokyo clearly hopes that solid trade and cultural relations will make this shift permanent.

Jon Choy

Japanese Investment In ASEAN Countries Likely To Increase

While the strong yen continues to pose debt repayment problems for Southeast Asian nations, the good news is that it has made Japanese firms more willing to invest in the region. According to a recent survey by the Promotion Center on Trade, Investment and Tourism of the Association of Southeast Asian Nations, Japanese investment in ASEAN countries will probably increase by at least 30 percent over the coming 12 months.

The survey polled 893 Japanese firms with overseas operations, of which 272 responded. Nearly 30 percent of the respondents chose the ASEAN region as their first investment choice. Moreover, 30 percent of those companies already operating there are considering expanding, 55 percent intend to maintain their present activities and only 10 percent are thinking of decreasing or completely withdrawing their investments.

If the survey is a good indicator it may signal a renewed regional emphasis by Japanese investors. ASEAN countries have been concerned that Japanese firms are turning toward the developed countries in recent years. Japanese investments in ASEAN countries have slipped to 16 percent of Japan's cumulative total, down from 20 percent in the late 1970s (see Table). Firms have been discouraged from setting up in some ASEAN countries by political and economic instability, bureaucratic obstacles and unfavorable tax structures; Western countries provide a better climate for investments.

Japan's Foreign Direct Investment in ASEAN Countries, FY 1984-FY 1985

(in millions of dollars)

Country	FY 1984	FY 1985	Cumulative March 31, 1986	Percent of Total
Indonesia	$374	$408	$8,423	10.1%
Singapore	225	339	2,269	2.7
Malaysia	142	79	1,125	1.3
Philippines	46	61	892	1.1
Thailand	119	48	760	0.9
Brunei	5	1	107	0.1

Source: Ministry of Finance

Nonetheless, foreign and domestic groups have put pressure on Tokyo to steer investments toward the ASEAN region. The government has acknowledged the merits of such a move, as evidenced by the Ministry of International Trade and Industry's August announcement of a program to help the ASEAN countries develop export-oriented industries through increased Japanese investment (see JEI Report No. 32B, August 29, 1986). More recently, a group of Japanese ambassadors to East Asia and other Pacific countries urged Tokyo to be more responsive to the region's expectations.

During a visit to Tokyo last month, Singapore's Prime Minister Lee Kuan Yew brought up the subject, saying that he was concerned about Japanese investment going to the developed countries. He asked for increased investment in Singapore and ASEAN, and suggested that Japanese firms initiate "buy-back" arrangements with their affiliates in Singapore. He also expressed a desire for "design, development and higher value-added work," not only offshore assembly. Finally, according to the Japan Economic Journal, the United States has also asked Tokyo to extend more aid and investment to Asian countries in order to counter Soviet influence.

In short, both political pressures and economic advantages offered by the strong yen will inspire a greater Japanese presence in the ASEAN region, at least in the immediate future. However, business executives maintain that ASEAN countries should improve their investment climates as well -- especially with regard to infrastructure, government regulations and tax structures. While there has been some positive feedback from Thailand, it is still unclear how quickly the other countries in the region will respond to this request.

Eileen Marie Doherty

Notes

- Japan and the United States agreed November 5 to extend an agreement insuring open and nondiscriminatory purchasing policies by Nippon Telegraph and Telephone Corp. for another three years. The 1981 accord, extended once before in 1984, opens NTT's bidding procedures to foreign firms and gives them an opportunity to develop equipment from scratch in cooperation with the telecommunications giant (see JEI Report No. 5B, February 3, 1984). The pact was to expire December 31 but Tokyo readily agreed to extend it as part of its commitment to opening the domestic telecommunications market to foreign firms. The United States sought to extend the procurement pact to one of NTT's private competitors in the common carrier market (Daini Denden Inc.), but Tokyo pointed out that DDI is a wholly private corporation.

- The Ministry of Finance set the price of one share of Nippon Telegraph and Telephone Corp. at Y1,197,000 ($7,481.25 at Y160=$1.00) in preparation for the sale of 1.65 million shares to individual investors. MOF arrived at this eye-opening price (par value is Y50,000 or $312.50) by auctioning 200,000 shares to institutions and wealthy individuals on October 24 (see JEI Report No. 40B, October 31, 1986). The ministry will now accept bids for single shares from individuals from November 17-26. Should there be more bids than shares, which is highly likely, MOF will hold a lottery for the coveted stock and will announce the winners by the end of the year. This is the first of at least four sales of NTT shares that Tokyo will offer as part of its plan to sell up to two-thirds of the previous government monopoly.